

## **INFORMATION PAPER FOR LEGISLATIVE COUNCIL**

### **KOWLOON-CANTON RAILWAY CORPORATION**

#### **REVIEW OF PASSENGER FARES FOR 2001**

The Kowloon-Canton Railway Corporation (KCRC) is a public corporation charged with operating and developing domestic, cross-boundary and intercity railway services in a prudent commercial manner. Within Hong Kong, its rail, light rail and feeder bus services face strong competition from other modes of public transport such as franchised buses, maxicabs and taxis. KCRC carried a daily average of 1,161,900 passengers in 2000. Its services are cheaper and faster than those of its competitors. Even with over a million passengers carried every day, the KCRC's safety record is second to none and, being a totally electrified railway, its services are one of the most environmentally friendly forms of mass transport.

2. The Corporation's success has only come through deliberate and concerted efforts to cut operating costs while continuing to improve existing services, to invest in new railways and feeder bus services, and to find novel ways to generate non fare revenue. 95% of all profits earned by the KCRC following corporatisation in 1982 have been ploughed back into improving the Corporation's transport services. Over the past five years alone, \$6.4 billion has been spent on improvements in the form of the complete refurbishment of all trains, purchase of new Light Rail vehicles, renovation of Hung Hom Station and installation of an automatic train protection system, etc. The Corporation will continue to re-invest its profits to improve its network and services. Current investments include –

- \$3.8 billion to be spent over the next three years on new trains, station improvements, Light Rail extension and grade separation, noise mitigation measures, etc;
- \$11.9 billion of the \$46.4 billion required for the construction of the West Rail project, which will provide the residents of the

Western New Territories with a convenient, high speed rail link to the urban area before the end of 2003; and

- \$5.3 billion out of the \$26.4 billion required for the construction of the East Rail Extensions, which will be completed in 2004/2005.

3. The KCRC still requires Government equity and commercial borrowing to finance its network expansion. Currently, the Corporation has borrowed \$16.5 billion, out of an expected requirement of \$18.6 billion, and needs to pay interest on this sum.

4. The KCRC has undertaken all these major investments without increasing its fares since 1 September 1997. This despite the fact that, with the single exception of the cross-boundary services, all of its transport services have been operating at a loss. Light Rail has never made a profit since it was first opened for operation. East Rail domestic services have made a loss in each of the past three years. The KCRC has only been able to hold down fare increases for its domestic services by relying in the main on growing profits from its cross-boundary services. But with Lo Wu fast approaching saturation, the potential for further growth is limited.

5. The Corporation has made genuine efforts to reduce operating costs. Over the past five years, the operating cost per passenger-kilometre has remained fairly level for East Rail, while Light Rail and the KCRC's bus operations have actually reduced their operating cost per passenger-kilometre.

6. If the Corporation is to continue improving its services and expanding its network, it has no alternative but to consider an increase in fares. The Managing Board of the KCRC has therefore decided, in principle, to increase fares by a modest average of 29 cents, or 3.1%, effective from 1 September 2001, but would wish to sound out public opinion before a final decision is taken. In practical terms, for Octopus users -

- 87% of East Rail's domestic passengers will pay no more than 20 cents extra per journey;

- 99% of Light Rail passengers will pay no more than 20 cents extra per journey; and
- free travel will continue to be enjoyed by rail passengers travelling on KCRC's feeder bus services to East Rail or Light Rail and, for non rail bus passengers, 86% will pay an extra 20 cents or less per journey.

7. The largest cash increase will fall on cross-boundary passengers but, even here, the increase is only 2.6%. About 87% of these passengers will need to pay an additional 80 cents and the rest no more than one dollar.

8. It should be stressed that, even with these proposed increases, KCRC's fares will still be cheaper, and its services faster and more reliable, than those of its competitors.

9. Tables elaborating on the points made above are annexed.

10. In conclusion, the Corporation has frozen its fares for nearly four years since 1 September 1997. Only the KCRC's cross-boundary service is profitable. The Corporation has consistently re-invested its profits in service improvements, and will continue to do so in the future. The fare increase proposed is modest and will result in KCRC's passengers still enjoying fares that are lower than those of competing modes of transport.

Kowloon-Canton Railway Corporation

18 June 2001

Chart 1

**1996-2000 Financial Results  
Actual and Forecast Profit/ (Loss)**

|                        | \$ million |       |       |       |       | 2001     |
|------------------------|------------|-------|-------|-------|-------|----------|
|                        | 1996       | 1997  | 1998  | 1999  | 2000  | Forecast |
| <b>East Rail</b>       |            |       |       |       |       |          |
| - Domestic             | 73         | 80    | (22)  | (83)  | (17)  | (72)     |
| - Cross Boundary       | 913        | 1,074 | 1,238 | 1,431 | 1,623 | 1,883    |
| <b>Light Rail</b>      | (193)      | (165) | (143) | (159) | (116) | (121)    |
| <b>Bus</b>             | (30)       | (25)  | (11)  | (11)  | (11)  | (14)     |
| <b>Commercial</b>      | 294        | 348   | 403   | 373   | 422   | 391      |
| <b>Total recurrent</b> | 1,057      | 1,312 | 1,465 | 1,551 | 1,901 | 2,067    |
| <b>Non-recurrent</b>   | 2,433      | 2,328 | 252   | 293   | 388   | 474      |
| <b>Tax</b>             | (413)      | (377) | (78)  | (59)  | (1)   | (1)      |
| <b>Net profit</b>      | 3,077      | 3,263 | 1,639 | 1,785 | 2,288 | 2,540    |

- **For three of past five years (1998 to 2000), only East Rail cross-boundary is profitable for passenger operation.**

Chart 2

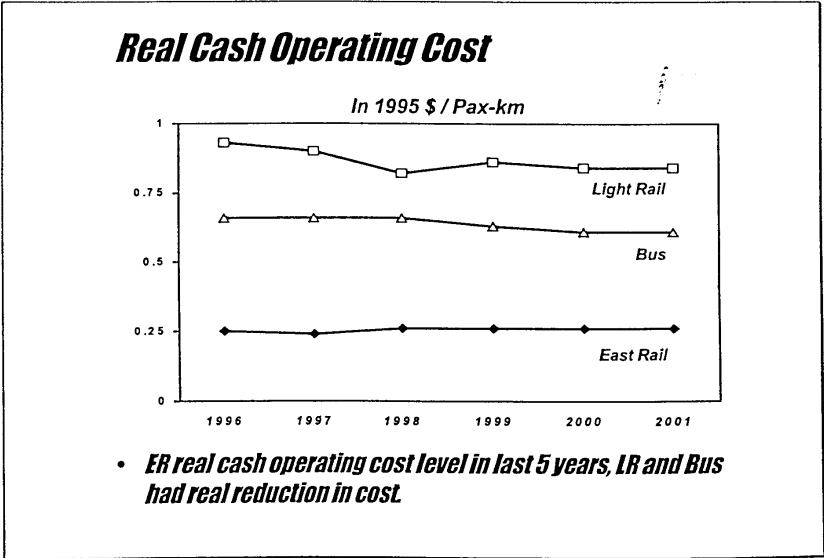


Chart 3

***Past Service Improvement Investments  
1996-2000***

| <i>Projects</i>                                     | <i>(\$ million)</i> |
|---|---------------------|
| <b>Train refurbishment</b>                          | <b>1,540</b>        |
| <b>Automatic Train Protection</b>                   | <b>1,190</b>        |
| <b>Hung Hom Station renovation</b>                  | <b>1,132</b>        |
| <b>Noise mitigation</b>                             | <b>394</b>          |
| <b>KTT Through Train</b>                            | <b>370</b>          |
| <b>LR vehicle purchase</b>                          | <b>345</b>          |
| <b>Other stations &amp; facilities improvements</b> | <b><u>1,394</u></b> |
|   | <b>6,365</b>        |

Chart 4

***Future Service Improvement  
Investments 2001-2003***

| <i>Projects</i>                                     | <i>(\$ million)</i> |
|---|---------------------|
| <b>New Trains</b>                                   | <b>1,155</b>        |
| <b>LR extension &amp; grade separation</b>          | <b>953</b>          |
| <b>Kowloon Tong Station concourse development</b>   | <b>288</b>          |
| <b>Noise mitigation measures</b>                    | <b>247</b>          |
| <b>Locomotive replacement</b>                       | <b>85</b>           |
| <b>Automatic train operation</b>                    | <b>85</b>           |
| <b>Other stations &amp; facilities improvements</b> | <b><u>1,013</u></b> |
|   | <b>3,826</b>        |

Chart 5

### ***Fares Comparison between ER Domestic and Bus***

| <i>To Kowloon South from</i> | <i>Fare (\$)</i> |                   |                            |
|------------------------------|------------------|-------------------|----------------------------|
|                              | <u><i>ER</i></u> | <u><i>Bus</i></u> | <u><i>ER advantage</i></u> |
| <i>Sheung Shui</i>           | 8.5              | 12.3              | 3.8                        |
| <i>Tai Po</i>                | 7.3              | 9.1               | 1.8                        |
| <i>Shatin</i>                | 5.1              | 5.5               | 0.4                        |

- ***ER Domestic is cheaper than Bus to urban Kowloon.***

Chart 6

### ***Journey Time Comparison between ER Domestic and Bus***

| <i>To Kowloon South from</i> | <i>Journey Time (minutes)</i> |                   |                            |
|------------------------------|-------------------------------|-------------------|----------------------------|
|                              | <u><i>ER</i></u>              | <u><i>Bus</i></u> | <u><i>ER advantage</i></u> |
| <i>Sheung Shui</i>           | 35                            | 75                | 40                         |
| <i>Tai Po</i>                | 25                            | 60                | 35                         |
| <i>Shatin</i>                | 13                            | 52                | 39                         |

- ***ER Domestic is faster than Bus to urban Kowloon.***

Chart 7

### ***Fares Comparison between ER Cross Boundary and Bus***

|                    | <i>Fare (\$)</i>              |   |                            |
|--------------------|-------------------------------|---|----------------------------|
|                    | <u><i>ER to<br/>Lo Wu</i></u> | <u><i>Bus via LMC to<br/>Shenzhen</i></u> | <u><i>ER advantage</i></u> |
| <i>Mongkok</i>     | 31.3                          | 50 to 70                                  | 18.7 to 38.7               |
| <i>Shatin</i>      | 24.2                          | 50 to 70                                  | 25.8 to 45.8               |
| <i>Sheung Shui</i> | 18.8                          | 50 to 70                                  | 31.2 to 51.2               |

- *ER Cross Boundary is cheaper than Bus to urban Shenzhen destinations.*

Chart 8

### ***Journey Time Comparison between ER Cross Boundary and Bus***

|                    | <i>Journey Time (minutes)</i> |   |                            |
|--------------------|-------------------------------|---|----------------------------|
|                    | <u><i>ER to<br/>Lo Wu</i></u> | <u><i>Bus via LMC<br/>to Shenzhen</i></u> | <u><i>ER advantage</i></u> |
| <i>Mongkok</i>     | 35                            | 60  | 25                         |
| <i>Shatin</i>      | 26                            | 50  | 24                         |
| <i>Sheung Shui</i> | 4                             | 30  | 26                         |

- *ER Cross Boundary is faster than Bus to urban Shenzhen destinations.*

Chart 9

***Comparison between Current and Revised Fares:  
East Rail-Domestic [Octopus]***

| (\$)                        |                     |                     |                 |
|-----------------------------|---------------------|---------------------|-----------------|
| <i>From Hung Hom to</i>     | <i>Current Fare</i> | <i>Revised Fare</i> | <i>Increase</i> |
| <i>Mongkok/Kowloon Tong</i> | <b>3.2</b>          | <b>3.3</b>          | <b>0.1</b>      |
| <i>Tai Wai/Shatin</i>       | <b>5.1</b>          | <b>5.3</b>          | <b>0.2</b>      |
| <i>Fo Tan</i>               | <b>6.0</b>          | <b>6.2</b>          | <b>0.2</b>      |
| <i>Racecourse</i>           | <b>11.7</b>         | <b>11.7</b>         | <b>0.0</b>      |
| <i>University</i>           | <b>6.0</b>          | <b>6.4</b>          | <b>0.4</b>      |
| <i>Tai Po/Tai Wo</i>        | <b>7.3</b>          | <b>7.7</b>          | <b>0.4</b>      |
| <i>Fanling/Sheung Shui</i>  | <b>8.5</b>          | <b>8.9</b>          | <b>0.4</b>      |

Chart 10

***Revised Fares:  
East Rail-Domestic [Octopus]***

| <i>Affected Passengers</i> |             |                     |
|----------------------------|-------------|---------------------|
| <i>Fare Increase(\$)</i>   | <i>%</i>    | <i>Cumulative %</i> |
| <b>0.0</b>                 | <b>0.8</b>  | <b>0.8</b>          |
| <b>0.1</b>                 | <b>28.1</b> | <b>28.9</b>         |
| <b>0.2</b>                 | <b>58.1</b> | <b>87.0</b>         |
| <b>0.4</b>                 | <b>13.0</b> | <b>100.0</b>        |

- ***87% of passengers will have 0 to 20 cents increase.***



Chart 11

***Comparison between Current and Revised Fares:  
East Rail-Cross Boundary [Octopus]***

(\$)

| <i>To Lo Wu from</i>        | <i>Current<br/>Fare</i> | <i>Revised<br/>Fare</i> | <i>Increase</i> |
|-----------------------------|-------------------------|-------------------------|-----------------|
| <i>Fanling/Sheung Shui</i>  | 18.8                    | 19.5                    | 0.7             |
| <i>Tai Po/Tai Wo</i>        | 20.8                    | 21.5                    | 0.7             |
| <i>University</i>           | 21.8                    | 22.5                    | 0.7             |
| <i>Fo Tan</i>               | 22.1                    | 22.8                    | 0.7             |
| <i>Tai Wai/Shatin</i>       | 24.2                    | 25.0                    | 0.8             |
| <i>Mongkok/Kowloon Tong</i> | 31.3                    | 32.1                    | 0.8             |
| <i>Hunghom</i>              | 31.3                    | 32.3                    | 1.0             |

Chart 12

***Revised Fares:  
East Rail-Cross Boundary [Octopus]***

*Affected Passengers*

| <i>Fare Increase (\$)</i> | <i>%</i> | <i>Cumulative %</i> |
|---------------------------|----------|---------------------|
| 0.7                       | 40.5     | 40.5                |
| 0.8                       | 44.2     | 84.7                |
| 1.0                       | 15.3     | 100.0               |

- *About 85% of passengers will have 70 to 80 cents increase.*

Chart 13

**Comparison between Current and Revised Fares:  
Light Rail [Octopus]**

(\$)

| <i>Octopus Fare<br/>(No. of Stops)</i> | <i>Current<br/>Fare</i> | <i>Revised<br/>Fare</i> | <i>Increase</i> |
|--|-------------------------|-------------------------|-----------------|
| (1-3)                                  | 3.70                    | 3.80                    | 0.1             |
| (4-6)                                  | 3.80                    | 3.90                    | 0.1             |
| (7-9)                                  | 3.90                    | 4.00                    | 0.1             |
| (10-12)                                | 3.90                    | 4.10                    | 0.2             |
| (13-15)                                | 4.40                    | 4.50                    | 0.1             |
| (16-18)                                | 4.90                    | 5.00                    | 0.1             |
| (19-21)                                | 5.30                    | 5.50                    | 0.2             |
| (22-26)                                | 5.80                    | 6.10                    | 0.3             |

Chart 14

**Revised Fares:  
Light Rail [Octopus]**

*Affected Passengers*

| <i>Fare Increase (\$)</i> | <i>%</i> | <i>Cumulative %</i> |
|---------------------------|----------|---------------------|
| 0.1                       | 82.4     | 82.4                |
| 0.2                       | 16.5     | 98.9                |
| 0.3                       | 1.1      | 100.0               |

- *About 99% of Light Rail passengers will have 10 to 20 cents increase.*

Chart 15

**Comparison between Current and Revised Fares:  
Bus [Octopus]**

| (\$)  |                         |                         |                 |
|---|-------------------------|-------------------------|-----------------|
| <i>Routes</i>                                   | <i>Current<br/>Fare</i> | <i>Revised<br/>Fare</i> | <i>Increase</i> |
| <b>657</b>                                      | <b>3.20</b>             | <b>3.50</b>             | <b>0.3</b>      |
| <b>670</b>                                      | <b>3.40</b>             | <b>3.60</b>             | <b>0.2</b>      |
| <b>659</b>                                      | <b>3.50</b>             | <b>3.60</b>             | <b>0.1</b>      |
| <b>521/655/656/A52/A59/A70/A71</b>              | <b>3.70</b>             | <b>3.90</b>             | <b>0.2</b>      |
| <b>A74</b>                                      | <b>4.00</b>             | <b>4.20</b>             | <b>0.2</b>      |
| <b>K1X/K2X (Full Fare)</b>                      | <b>6.10</b>             | <b>6.40</b>             | <b>0.3</b>      |
| <b>(Sectional Fare)</b>                         | <b>4.50</b>             | <b>4.60</b>             | <b>0.1</b>      |
| <b>A73 (Full Fare)</b>                          | <b>6.50</b>             | <b>6.70</b>             | <b>0.2</b>      |
| <b>(Sectional Fare at Fu<br/>Hang Tsuen)</b>    | <b>4.60</b>             | <b>4.60</b>             | <b>0.0</b>      |
| <b>(Section Fare at<br/>Lingnan University)</b> | <b>5.00</b>             | <b>5.00</b>             | <b>0.0</b>      |

Chart 16

**Revised Fares:  
Bus [Octopus]**

| <i>Affected Passengers</i> |             |                     |
|----------------------------|-------------|---------------------|
| <i>Fare Increase (\$)</i>  | <i>%</i>    | <i>Cumulative %</i> |
| <b>0.0</b>                 | <b>4.6</b>  | <b>4.6</b>          |
| <b>0.1</b>                 | <b>23.8</b> | <b>28.4</b>         |
| <b>0.2</b>                 | <b>57.1</b> | <b>85.5</b>         |
| <b>0.3</b>                 | <b>14.5</b> | <b>100.0</b>        |

- *No fare increase for some sectional fares*
- *About 86% of Feeder Bus passengers will have 0 to 20 cents increase.*

Chart 17

### ***2001 KCRC Fare Revision***

| <b><i>KCRC service</i></b>      | <b><i>Average Increase</i></b> |                   |
|---------------------------------|--------------------------------|-------------------|
|                                 | <b><i>(\$)</i></b>             | <b><i>(%)</i></b> |
| <b><i>ER domestic</i></b>       | <b>0.22</b>                    | <b>3.8</b>        |
| <b><i>ER cross boundary</i></b> | <b>0.66</b>                    | <b>2.6</b>        |
| <b><i>ER overall</i></b>        | <b>0.36</b>                    | <b>2.9</b>        |
| <b><i>LR</i></b>                | <b>0.14</b>                    | <b>3.8</b>        |
| <b><i>Bus</i></b>               | <b>0.13</b>                    | <b>3.9</b>        |
| <b><i>KCRC overall</i></b>      | <b>0.29</b>                    | <b>3.1</b>        |